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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION**

**IN RE STEC, INC. SECURITIES
LITIGATION**

) No. SACV 09-01304-JVS (MLGx)
)
)
) SECOND CONSOLIDATED
) AMENDED COMPLAINT FOR
) VIOLATION OF THE FEDERAL
) SECURITIES LAWS
)
)
) CLASS ACTION
)
) DEMAND FOR JURY TRIAL
)
Judge: Hon. James V. Selna
)
)

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1 Court appointed Lead Plaintiff, the State of New Jersey, Department of
2 Treasury, Division of Investment (“Lead Plaintiff” or “New Jersey”), individually
3 and on behalf of a class of similarly situated persons and entities, by its
4 undersigned counsel, for its Second Consolidated Amended Class Action
5 Complaint for Violation of the Federal Securities Laws asserting claims against
6 STEC, Inc. (“STEC” or the “Company”) and the other Defendants named herein,
7 alleges the following upon personal knowledge as to itself and its own acts, and
8 upon information and belief as to all other matters.

9 Lead Plaintiff’s information and belief as to allegations concerning matters
10 other than itself and its own acts is based upon an investigation by its counsel
11 which included, among other things: (i) review of information about the other
12 Representative Plaintiffs obtained from them; (ii) review and analysis of
13 documents filed publicly by STEC with the Securities and Exchange Commission
14 (the “SEC”); (iii) review and analysis of press releases, news articles, earnings
15 conference call transcripts and other public statements issued by or concerning
16 STEC and other Defendants named herein; (iv) review and analysis of research
17 reports issued by financial analysts concerning STEC’s securities and business; (v)
18 interviews of former STEC employees; (vi) interviews of employees and former
19 employees of STEC’s customers, such as computer manufacturing companies; and
20 (vii) review and analysis of news articles, media reports and other publications
21 concerning the computer industry. Lead Plaintiff believes that substantial
22 additional evidentiary support for the allegations herein exists and will continue to
23 be revealed after Lead Plaintiff has a reasonable opportunity for discovery.

24 **I. NATURE AND SUMMARY OF THE ACTION**

25 1. As detailed below, this case involves two brothers who, as founders
26 and key officers of a high tech company, sold half of their stock in the Company
27 for \$267.8 million after they and one of the other officers had made a series of
28 knowing misstatements and misleading omissions that artificially doubled the price

1 of the stock. Shortly after the brothers sold their stock in a single secondary
2 offering, the falsity of their statements and omissions was disclosed, the price of
3 the company's stock collapsed back to its prior level, and the SEC commenced a
4 formal investigation that still is ongoing.

5 2. This is a class action on behalf of all persons who purchased or
6 otherwise acquired STEC common stock between June 16, 2009, and February 23,
7 2010, inclusive (the "Class Period"), seeking to pursue remedies under the
8 Securities Exchange Act of 1934 (the "Exchange Act"), and the Securities Act of
9 1933 (the "Securities Act").

10 3. STEC is a manufacturer of data storage devices for computer systems.
11 STEC's customers include original equipment manufacturers ("OEMs") such as
12 EMC, IBM, Hitachi, Hewlett-Packard ("HP") and Sun Microsystems ("Sun"),
13 who, in turn, manufacture high performance storage and server systems for large
14 enterprises.

15 4. STEC claims to manufacture the industry's most comprehensive line
16 of solid-state drives ("SSDs," also known as "flash drives"). A solid state drive is
17 used for storing information in a computer system. Whereas older hard disk drive
18 ("HDD") technologies stored information on electromechanical spinning disks, an
19 SSD has no moving parts, but instead retains information on static computer chips.
20 Because SSDs have no moving parts, they have certain performance advantages
21 over HDDs: they are faster, more energy efficient and have longer service lives.
22 However, SSDs are significantly more expensive than HDDs.

23 5. STEC's flagship product, the ZeusIOPS, is a high-performance SSD
24 advertised by the Company as being able to access stored data at much faster
25 speeds than both HDDs and other SSDs, due to the Company's proprietary
26 architecture.

27 6. The Company was founded by the three Moshayedi brothers –
28 Manouch, Mehrdad ("Mark") and Masoud ("Mike")—in 1990. Thereafter, the

1 Moshayedi brothers continued as STEC officers and directors. At all relevant
2 times, Manouch was STEC's Chief Executive Officer ("CEO") and Chairman of
3 the Company's Board of Directors. At all relevant times, Mark was the
4 Company's Chief Operating Officer ("COO"), Chief Technical Officer ("CTO"),
5 President and Secretary, as well as a member of STEC's Board of Directors and
6 Equity Awards Committee. Mike, formerly the Company's President, retired in
7 2007, but retained at that time an 8.99% ownership interest in the Company. Mike
8 Moshayedi is not a Defendant.

9 7. The Moshayedi brothers are also major shareholders of the Company.
10 At the beginning of the Class Period they collectively held 45% of the Company's
11 stock.

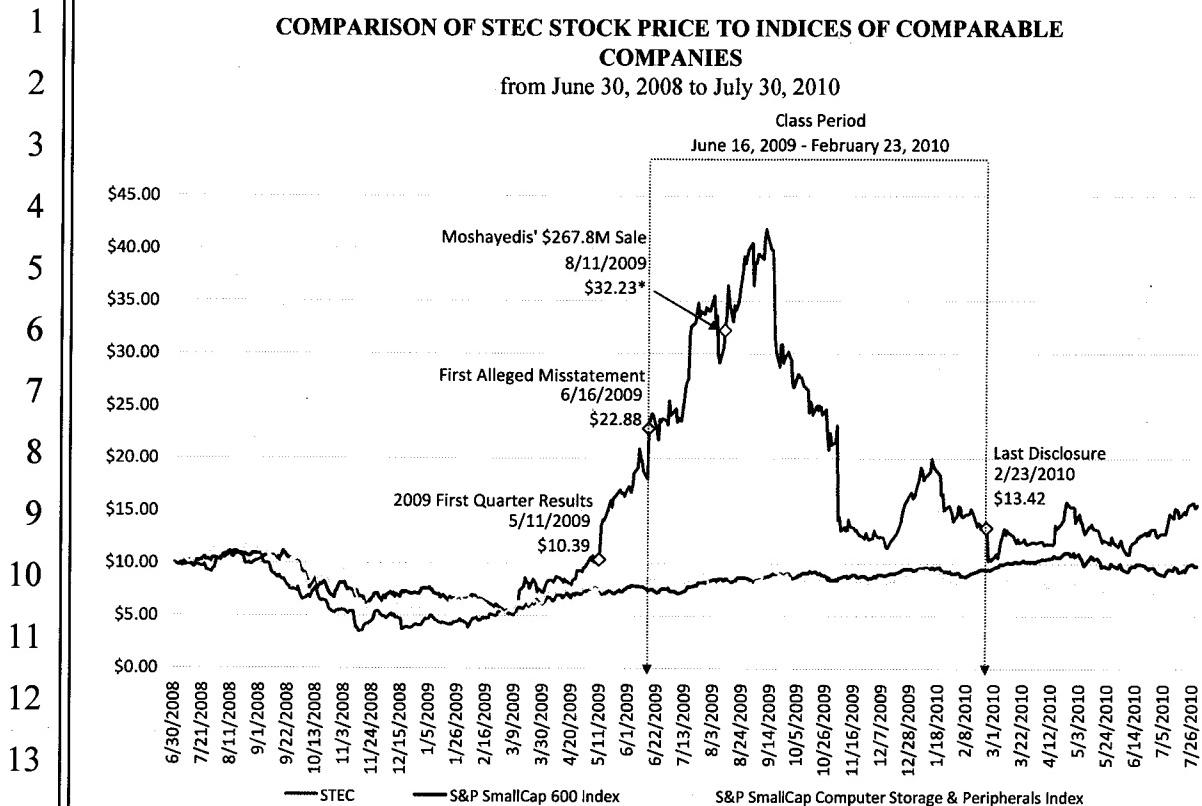
12 8. As detailed herein, during the Class Period, Defendants issued or
13 caused to be issued materially untrue statements and omissions that, among other
14 things, created an inflated impression of STEC's revenue growth, and of conditions
15 that supposedly ensured a near and long term continuation and even acceleration of
16 that growth.

17 9. In summary form, these materially untrue statements and omissions
18 included:

- 19 (a) that an agreement signed by STEC with its largest customer,
20 EMC, in the middle of 2009 for a huge volume of purchases to be
21 made in the second half of 2009 (the "EMC Agreement" or
22 "Agreement") was an ordinary course contract whose size was
23 determined solely by an increase in the customer's supply
24 requirements such that a similar volume of purchases by the same
25 customer could be expected on a regular recurring basis;
- 26 (b) that, as of August 2009, STEC was expecting the volume of
27 purchases by its other large customers (the "Other OEMs") to
28 increase during the second half of 2009;

- (c) that, as part of the expected increase in purchases by the Other OEMs during the second half of 2009, STEC was expecting IBM to transition to a much larger volume of purchases during that period;
- (d) that, as of September 2009, one or more of the Other OEMs would have been willing and able to replace EMC as the purchaser under the EMC Agreement, or to purchase a similar amount of ZeusIOPS under a similar agreement; and
- (e) that during the 2009 second quarter, STEC's reported revenue would grow, and then did grow, by an amount that—unknown to investors—had been artificially inflated.

12 10. As indicated by the chart below, the effect of these false statements
13 and omissions was to dramatically inflate the price of STEC's stock during the
14 second and third quarters of 2009. On June 15, 2009, the day before the first
15 alleged Class Period misstatement, the price of STEC stock closed at \$18.02. By
16 August 3, 2009, the price had roughly doubled, to \$35.50. However, during the
17 subsequent seven months, when the falsity of these statements and omissions was
18 disclosed by successive partial corrective disclosures, STEC's stock price lost
19 everything it had gained during the Class Period.



*The Offering price was \$31.00 per share.

15 11. On August 3, 2009, when the false impression created by Defendants' misstatements and omissions had resulted in a doubling of STEC's stock price,
16 STEC announced that it would issue a secondary offering of stock, comprised
17 entirely of stock held personally by Manouch and Mark Moshayedi (the
18 "Offering"). Also on August 3, 2009, Defendants made most of the false
19 statements and omissions alleged herein.
20

12. Eight days later, on August 11, 2009, these two defendants (“the
Moshayedis”) sold more than 50% of their STEC stock in the Offering, and
received thereby a total of \$267.8 million.

24 13. This was the biggest insider stock liquidation in the history of STEC,
25 and a departure from the pattern of the Moshayedis' other recent sales of STEC
26 stock. The number of shares sold by the Moshayedis in the Offering was
27 collectively more than eleven times the number of shares they sold in the six

1 months before the Class Period and nearly twenty times the number of shares they
2 sold in all of 2008.

3 14. Seven months later, as the price of STEC's stock was hitting a new
4 low, STEC announced that the SEC was conducting a formal investigation
5 involving trading in the Company's securities, and that the SEC had issued
6 subpoenas to certain of its employees in connection with that investigation,
7 including two of the Company's top officers: Manouch, the Company's CEO, and
8 Mark, the Company's President and COO. According to STEC's most recent
9 10-Q, filed on November 2, 2010, that investigation still is ongoing.

10 15. Under Counts I through III, which Lead Plaintiff brings under the
11 Exchange Act, and only under such counts, Lead Plaintiff alleges that each of the
12 Officer Defendants (defined in paragraph 31, *infra*) and STEC (together, "the
13 Exchange Act Defendants") committed fraud, by making one or more of the
14 alleged materially untrue statements and/or omissions and by doing so with
15 knowledge of the falsity of each such misstatement or omission, and that each of
16 the Officer Defendants is liable as a control person.

17 16. Under Counts IV through VIII, which Lead Plaintiff brings under the
18 Securities Act, Lead Plaintiff alleges that each defendant—*i.e.*, each of the
19 Exchange Act Defendants plus Bahri (the Director Defendant) and each of the
20 Underwriter Defendants—is liable for each of the untrue statements and omissions
21 that were made or incorporated into the registration statement and/or prospectus for
22 the secondary offering, and that each of the Officer Defendants is also liable under
23 the Securities Act as a control person. Lead Plaintiff *does not allege fraud* as to
24 any of its claims under the Securities Act.

25 17. Because the only claims alleged against Bahri (the Director
26 Defendant) and the Underwriter Defendants are claims under the Securities Act,
27 Lead Plaintiff does not allege any claim based on fraud against any of these
28 defendants.

1 **II. JURISDICTION AND VENUE**

2 18. The claims asserted herein arise under and pursuant to Sections 11,
3 12(a)(2), and 15 of the Securities Act, 15 U.S.C. §§ 77k(a), 77l(a), 77o, Sections
4 10(b), 20(a), and 20A of the Exchange Act, 15 U.S.C. §§ 78j(b), 78t(a), 78-t1(a),
5 Rule 10b-5 promulgated under Section 10 of the Exchange Act, 17 C.F.R. §
6 240.10b-5, and 15 U.S.C. § 78r.

7 19. This Court has jurisdiction over the subject matter of this action
8 pursuant to Section 22 of the Securities Act, 15 U.S.C. § 77v, Section 27 of the
9 Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. §§ 1331, 1367.

10 20. Venue is proper in this District pursuant to Section 22 of the
11 Securities Act, Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. §
12 1391(b). Defendant STEC maintains its principal place of business within this
13 District, the Officer Defendants conduct business in this District, and many of the
14 acts giving rise to the violations alleged herein, including the preparation and
15 dissemination of materially false and misleading information and omissions,
16 occurred in substantial part in this District.

17 21. In connection with the acts alleged herein, Defendants, directly or
18 indirectly, used the means and instrumentalities of interstate commerce including,
19 without limitation, the United States mail, interstate telephone communications and
20 the facilities of the national securities markets.

21 **III. THE PARTIES**

22 **A. The Plaintiffs**

23 22. The State of New Jersey, Department of Treasury, Division of
24 Investment is a large institutional investor, managing approximately \$70.84 billion
25 for the benefit of approximately 780,000 current and former public employees of
26 the State of New Jersey. As set forth in its certification previously filed herein,
27 Lead Plaintiff purchased STEC common stock during the Class Period and
28 suffered losses as a direct and proximate result of Defendants' wrongful conduct

1 alleged herein. On July 14, 2010, the Court appointed New Jersey as Lead
2 Plaintiff.

3 23. Representative Plaintiff the International Brotherhood of Electrical
4 Workers, Local 103 (“Local 103”), located in Dorchester, Massachusetts, oversees
5 the Electrical Workers Pension Fund, with assets of approximately \$1.1 billion.
6 Local 103 alleges violations of Section 20A of the Exchange Act on behalf of itself
7 and all Class members who purchased STEC securities contemporaneously with
8 Defendants Manouch and Mark Moshayedi’s sales of STEC stock during the Class
9 Period. As set forth in its certification previously filed herein, Representative
10 Plaintiff Local 103 purchased STEC securities contemporaneously with the sales
11 of STEC securities by Manouch and Mark Moshayedi and suffered damage as a
12 result of the misconduct alleged herein.

13 24. Representative Plaintiff the Norfolk County Retirement System
14 (“Norfolk County”), located in Massachusetts, provides retirement benefits to
15 8,200 active and retired employees from forty governmental units throughout the
16 County of Norfolk, Massachusetts, and manages more than \$600 million in assets.
17 Norfolk County alleges violations of Sections 11, 12(a)(2) and 15 of the Securities
18 Act on behalf of itself and all Class members who acquired shares of STEC
19 common stock pursuant to or traceable to the registration statement (the
20 “Registration Statement”) and/or the prospectuses (the “Prospectus”) issued in
21 connection with the Offering. As set forth in its certification previously filed
22 herein, Representative Plaintiff Norfolk County purchased STEC securities
23 pursuant to or traceable to the Registration Statement and/or Prospectus and
24 suffered damages as a result of the false statements contained therein.

25 B. **The Issuer Defendant**

26 25. Defendant STEC is a California corporation with its principal place of
27 business located at 3001 Daimler Street, Santa Ana, California. STEC purports to
28 be a leading global provider of solid-state computer memory drive technologies

1 and solutions tailored to meet the high-performance, high-reliability needs of
2 OEMs such as EMC, IBM, HP, Hitachi and Sun. During the Class Period, STEC's
3 core business was its enterprise scale SSDs, such as the ZeusIOPS. STEC claims
4 to manufacture the "most comprehensive line" of SSDs in the storage industry.

5 26. Defendants Manouch and Mark Moshayedi, and their brother, Mike
6 Moshayedi founded STEC, then named Simple Technology, Inc., in 1990. The
7 Company grew rapidly through acquisitions and expansions both domestically and
8 abroad. In September 2000, the Company went public. In 2007, STEC divested
9 its Consumer Division, and introduced its high-end, flagship product, the
10 ZeusIOPS.

11 27. Throughout the Class Period (June 16, 2009 through February 23,
12 2010), the Company's stock traded in an efficient market on NASDAQ under the
13 ticker symbol, "STEC." As of November 2, 2010, the Company had nearly 51
14 million shares of common stock outstanding.

15 **C. The Officer Defendants**

16 28. At all relevant times Defendant Manouch Moshayedi has been CEO,
17 Chairman of STEC's Board of Directors and a member of the Equity Awards
18 Committee. During the Class Period, Manouch Moshayedi signed and certified
19 STEC's SEC filings pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act
20 of 2002, including, without limitation, the Company's quarterly report for the
21 second quarter of 2009 ("2009 second quarter Form 10-Q" or "2009 second quarter
22 10-Q") and the annual report for 2009 ("2009 Form 10-K" or "2009 10-K"). He
23 also signed the documents in connection with the Offering, including the
24 Registration Statement on Form S-3, and the Prospectus contained in the
25 Registration Statement. Manouch Moshayedi sold 4.1 million shares of his STEC
26 common stock for \$133,920,000 in the Offering.

27 29. At all relevant times Defendant Mark Moshayedi has been STEC's
28 President, COO, CTO, and Secretary, as well as a member of the Company's

1 Board of Directors and a member of the Equity Awards Committee. During the
2 Class Period, Mark Moshayedi signed STEC's SEC filings, including, without
3 limitation, the Registration Statement, and the 2009 10-K. Mark Moshayedi sold
4 4.9 million shares of his STEC common stock for \$133,920,000 in the Offering.

5 30. Defendant Raymond D. Cook was first hired by STEC in November
6 2008. At all times during the Class Period he was STEC's Chief Financial Officer
7 ("CFO") and Principal Accounting Officer. Defendant Cook signed STEC's Class
8 Period SEC filings, including, without limitation, the Registration Statement, the
9 2009 second quarter 10-Q, the 2009 second quarter Earnings Release, the 2009
10 third quarter 10-Q, the 2009 third quarter Earnings Release, the 2009 10-K, the
11 2009 fourth quarter Earnings Release and STEC's September 10, 2009, letter to the
12 SEC.

13 31. Because of their positions with the Company, Defendants Manouch
14 Moshayedi, Mark Moshayedi, and Raymond D. Cook (collectively, the "Officer
15 Defendants") each possessed the power and authority to control the contents of
16 STEC's quarterly reports, press releases, and presentations to securities analysts,
17 money and portfolio managers, and institutional investors. They were provided
18 with copies of the Company's reports and press releases alleged to be misleading
19 prior to or shortly after their issuance, and had the ability and opportunity to
20 prevent their issuance or cause them to be corrected. Because of their positions
21 with the Company, and their access to material non-public information, the Officer
22 Defendants knew that the adverse facts specified herein were being concealed from
23 the public, and that the positive representations being made were then materially
24 false and misleading.

25 32. As officers and controlling persons of a publicly-held company whose
26 common stock was, and is, registered with the SEC pursuant to the Exchange Act,
27 traded on NASDAQ, and governed by the provisions of the federal securities laws,
28 the Officer Defendants each had a duty promptly to disseminate accurate and

1 truthful information with respect to the Company's financial condition and
2 performance, growth, operations, financial statements, business, products, markets,
3 management, earnings, and present and future business prospects, and to correct
4 any previously-issued statements that had become materially misleading or untrue,
5 so that the market price of the Company's publicly traded common stock would be
6 based on truthful and accurate information. The Officer Defendants'
7 misrepresentations and omissions during the Class Period violated these specific
8 requirements and obligations. The Officer Defendants are therefore liable for the
9 false and misleading statements pleaded herein.

10 D. **The Director Defendant**

11 33. Rajat Bahri was, at all relevant times, a member of STEC's Board of
12 Directors, and Chair of the Board's Audit Committee. During the Class Period,
13 Defendant Bahri signed the Company's SEC filings, including, without limitation,
14 the Registration Statement and the 2009 Form 10-K.

15 34. STEC's Board of Directors has determined that Mr. Bahri is an "audit
16 committee financial expert," as that term is defined in Item 407(d)(5) of Regulation
17 S-K, which means that the Company's Board determined that Defendant Bahri has
18 the following attributes:

19 (a) An understanding of generally accepted accounting principles
20 and financial statements;

21 (b) The ability to assess the general application of such principles
22 in connection with the accounting for estimates, accruals and reserves;

23 (c) Experience preparing, auditing, analyzing or evaluating
24 financial statements that present a breadth and level of complexity of accounting
25 issues that are generally comparable to the breadth and complexity of issues that
26 can reasonably be expected to be raised by the registrant's financial statements, or
27 experience actively supervising one or more persons engaged in such activities;

(d) An understanding of internal control over financial reporting;
and

(e) An understanding of audit committee functions.

4 ||| 35. No allegation based on fraud is made against Defendant Bahri.

E. The Underwriter Defendants

6 36. Defendant Barclays Capital Inc. (“Barclays Capital”) is an investment
7 bank that acted as an underwriter with respect to STEC common stock sold in the
8 Offering. Barclays Capital’s headquarters are located at 745 Seventh Avenue,
9 New York, New York 10019.

10 37. Defendant Deutsche Bank Securities Inc. (“Deutsche Bank
11 Securities”) is an investment bank that acted as an underwriter with respect to
12 STEC common stock sold in the Offering. Deutsche Bank Securities’ headquarters
13 are located at 60 Wall Street, New York, New York 10005.

14 38. Defendant J.P. Morgan Securities Inc. ("J.P. Morgan Securities") is an
15 investment bank that acted as an underwriter with respect to STEC common stock
16 sold in the Offering. J.P. Morgan Securities' headquarters are located at 277 Park
17 Avenue, New York, New York 10172.

18 39. Defendant Oppenheimer & Co., Inc. ("Oppenheimer") is an
19 investment bank that acted as an underwriter with respect to STEC common stock
20 sold in the Offering. Oppenheimer's headquarters are located at 125 Broad Street,
21 New York, New York 10004.

22 40. The Underwriter Defendants acted as underwriters of the Offering and
23 distributed at least nine million shares of STEC common stock to investors. The
24 distribution of shares to the Underwriters (excluding the 1,350,000 share over-
25 subscription allotment) was:

	<u>Name</u>	<u>Number of shares</u>
1	J.P. Morgan Securities	2,925,000
2	Deutsche Bank Securities	2,925,000
3	Barclays Capital	1,800,000
4	Oppenheimer	1,350,000

5 41. In connection with the Offering, the Underwriter Defendants were
6 granted an option for a period of thirty days to purchase up to an additional
7 1,350,000 shares to cover over-allotments.

8 42. The Underwriter Defendants received an underwriting discount of at
9 least \$11.16 million, indirectly paid by Lead Plaintiff and other Class members
10 who purchased STEC common stock in the Offering.

11 43. The Underwriter Defendants failed to conduct an adequate due
12 diligence investigation, which was a substantial contributing factor leading to the
13 harm complained of herein.

14 44. No allegation based on fraud is made against any Underwriter
15 Defendant.

16 **IV. FACTUAL BACKGROUND AND SUBSTANTIVE ALLEGATIONS**
17 **RELATING TO THE EXCHANGE ACT CLAIMS**

18 **A. During the 2009 Third Quarter, the Exchange Act Defendants**
19 **Misrepresented the Nature of a New Agreement With EMC,**
20 **STEC's Largest Customer**

21 **1. The Exchange Act Defendants had Consistently Described**
22 **Their ZeusIOPS Business as One That Eventually Would**
23 **Produce, in the Ordinary Course, Surging Sales to Each**
24 **ZeusIOPS OEM Customer**

25 45. Starting prior to the Class Period, and continuing through the time of
26 the Exchange Act Defendants' misstatements and omissions, STEC consistently
27 told investors that because, among other reasons, sales of ZeusIOPS are
28 customized by STEC for each particular OEM customer, purchasing of ZeusIOPS

1 by any given OEM could be expected to pass through a series of phases, with the
2 volume of the OEM's purchases increasing by quantum leaps as the OEM passed
3 from one phase to the next.

4 46. STEC's Form 10-K for the year 2008, filed on March 12, 2009, states,
5 “[p]roducts sold to our customers are typically customized by our design and
6 engineering teams to meet our customers' specific design requirements,” and “[w]e
7 offer our [OEM] customers a comprehensive technology solution from concept to
8 design to the creation of prototypes through volume production and testing.”

9 47. According to STEC, the first stage for any ZeusIOPS customer
10 involves STEC selling the customer samples for the purpose of testing and
11 evaluation. If the first phase is successful, it results in the OEM “qualifying”
12 ZeusIOPS for use in one or more “system platforms,” and increasing its purchases
13 of ZeusIOPS.¹

14 48. In the second phase—referred to by Manouch during STEC's 2009
15 second quarter earnings conference call as “pre production”—the OEM markets a
16 system of its own that incorporates ZeusIOPS, by sending its own samples to
17 multiple end-users, while purchasing an increased volume of ZeusIOPS from
18 STEC in order to create these samples.

19 49. In the third and final phase, the OEM receives a stream of orders for
20 its system large and steady enough to justify what STEC's 2008 10-K refers to as
21 “volume production” of the OEM's system—also referred to by Manouch during
22 the 2009 second quarter conference call as “production,” “full production,” and
23 “full ramping production” of the OEM's system. In this third and final phase, the
24 OEM purchases a substantially increased volume of ZeusIOPS to support the
25

26

¹ According to STEC, an OEM makes at least some purchases of ZeusIOPS
27 even prior to ZeusIOPS having been qualified for the OEM's systems. Thus,
28 during STEC's 2008 second quarter earnings conference call, Manouch stated that
STEC had sold a total \$12.2 million of ZeusIOPS “mostly for qualifications.”

1 OEM's substantially increased production of its system that incorporates
2 ZeusIOPS.

3 50. In 2007, ZeusIOPS had not yet been qualified by any enterprise
4 storage OEM. During STEC's earnings conference call on May 14, 2007,
5 Manouch stated that "we are still in the qualification stages [with ZeusIOPS]," and
6 "once this thing is qualified with customers, the volumes will be significant."

7 51. On January 14, 2008, STEC announced that, after a year of
8 "collaborative effort" between STEC and EMC Corporation (described by *The*
9 *Wall Street Journal* as "the market-share leader in big computer storage systems")
10 EMC had "selected Zeus-IOPS" for "deployment" in certain "high-end networked
11 storage systems." STEC stated "[t]his union signifies the first adoption of our
12 Zeus-IOPS SSDs in the enterprise storage and enterprise computing markets."

13 52. Two months later, on March 5, 2008, during the year-end earnings
14 conference call for 2007, a STEC spokesperson stated that "[w]e expect production
15 levels to ramp for [EMC] in future quarters."

16 53. Another two quarters later, in its 2008 third quarter 10-Q, STEC
17 reported that ZeusIOPS had been "qualified" for use on the platforms of "one of
18 the largest Enterprise Storage and Server OEMs." During STEC's 2008 third
19 quarter earnings conference call Manouch stated that sales of ZeusIOPS during the
20 first three quarters of 2008 had already grown substantially compared to sales
21 during 2007, "and this 2008 was just a sampling of what we can do in that type of
22 product [because] we haven't yet gone into *major production*² of this product line.
23 Once we do, I think the numbers will be *significantly* higher than what we are
24 doing today based on just eval[uations] and samples."

25 54. Another two quarters later, during STEC's 2009 first quarter
26 conference call, Manouch stated that ZeusIOPS was now qualified at all five of the
27

28

² Unless otherwise noted, all emphasis is added.

1 largest enterprise storage OEMs, and indicated that EMC was now in “full
2 production” of systems incorporating ZeusIOPS.

3 55. One quarter after that, during STEC’s 2009 second quarter earnings
4 conference call, Manouch described EMC as being in “full ramping production,”
5 and added that once the other four OEMs—described by Manouch as being in “pre
6 production”—“start kicking in we will see *huge ramps* in sales of ZeusIOPS going
7 forward.”

8 56. According to STEC, although the volume of a given OEM’s
9 purchases of ZeusIOPS would increase by quantum leaps as the customer passed
10 from pre qualification, to pre production, to volume production, an OEM’s
11 purchases could increase—although more gradually—at other times as well,
12 because, as stated in STEC’s 2008 10-K, “the SSD market will continue to expand
13 over the next few years, aided by the continuation of the decline in Flash
14 component pricing,” and because the continuous development of new applications
15 for SSDs would increase the variety of possible OEM systems and interested end
16 users.³

17 57. Thus, as early as during the May 14, 2007, earnings conference call,
18 Manouch noted that one ZeusIOPS customer that was still in the qualification stage
19
20

21 ³ During the May 14, 2007, earnings conference call, Manouch noted that
22 “everybody in every industry that we are seeing, small or large products that they
23 build, they are now trying to integrate Flash into it.” As explained by *The Wall*
24 *Street Journal* on January 14, 2008, EMC originally expected that its systems
25 incorporating ZeusIOPS would only be purchased by financial institutions needing
26 to “handle hundreds of transactions a second,” and, during STEC’s 2008 first
27 quarter conference call, Manouch stated that systems incorporating ZeusIOPS had
28 not yet been sent by the OEMs “to anybody else besides the financial institutions.”
However, Manouch immediately added, “I think as we go forward during the
year[,] in the second half of the year, we will see more and more applications
coming up.”

1 “wants a much larger volume for qualification across their platforms,” and that
2 “customers like that will pick up significantly.”

3 58. Thus too, according to STEC, the achievement of volume production
4 by a specific OEM did not mean the end of the growth in the volume of its
5 purchases from STEC, because the volume of its requirements was likely to
6 *continue* growing as ZeusIOPS was integrated into more and more of the OEM’s
7 systems for sale to an increasing variety of end users—which is why, on August 3,
8 2009, during the second quarter earnings conference call, Manouch
9 interchangeably used the terms “full production” and “full *ramping* production.”

10 59. In sum, STEC made clear to investors that in the ordinary course of its
11 ZeusIOPS business, total sales of ZeusIOPS were likely to grow over time, and,
12 not only were sales of ZeusIOPS to any given customer likely to grow over time,
13 but also, they were likely to exhibit great spurts of growth as the customer
14 transitioned from one phase of purchasing to the next.

15 60. As reported by STEC during its quarterly earnings conference calls,
16 from the time of STEC’s first collaborative efforts with EMC during 2007 to create
17 EMC systems incorporating ZeusIOPS, through the second quarter of 2009 when
18 EMC achieved “full ramping production” of such systems, STEC’s revenues from
19 ZeusIOPS sales increased from quarter to quarter, and year to year by dramatic
20 amounts. These reported results appeared to confirm the scenario depicted by
21 STEC of steadily increasing total ZeusIOPS sales, driven by the transitioning of
22 purchasers—up to this point, especially EMC—from pre qualification, to pre
23 production, to volume production of systems incorporating ZeusIOPS.

24 61. For the year 2007—the year when STEC reportedly began its
25 collaboration with EMC—STEC reported ZeusIOPS revenues of \$11 million, with
26 just the last quarter of 2007 accounting for \$7 million of that total.

27 62. For the next year—2008—STEC reported ZeusIOPS revenues of
28 \$52.7 million—making for a year-over-year increase of almost 400%. During the